Prince Edward Island
CANADA

Civil Service Superannuation Fund

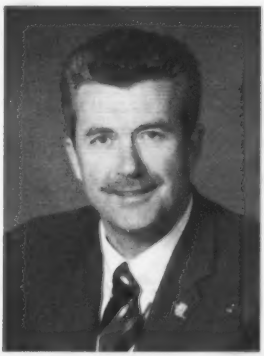
Annual Report 2008-2009

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with Section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2009.

Respectfully submitted,



Wes Sheridan,
Provincial Treasurer

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Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and dependents of deceased members, in accordance with the Civil Service Superannuation Act (CSSA).

Plan Description

The CSSF is a contributory, defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund.

Contributions – In 2008-2009, members of the plan contributed the following for the calendar year 2008:

- 8.75 percent of pensionable earnings up to $3,500 (Canada Pension Plan's (CPP) basic exemption threshold,
- 6.95 percent of pensionable earnings from $3,501 to CPP's Yearly Maximum Pensionable Earnings (YMPE) for 2008, and
- 8.75 percent of pensionable earnings in excess of the YMPE.

At January 1, 2009, the plan moved from the 3-tier formula above, to a 2-tier formula as follows:

- 7.09 percent of pensionable earnings up to the YMPE for 2009, and
- 8.75 percent of pensionable earnings in excess of the YMPE.

The YMPE was $44,900 for 2008 and $46,300 for 2009.

The employer pays to the fund an amount equal to that paid by the members.

Membership – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

Retirement Pension – An unreduced monthly pension is payable for life to a member who has attained the age of 60 with two or more years of pensionable service or a member who has attained the age of 55 years with 30 or more years of pensionable service. The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average of the three highest years of pensionable earnings. Please note that for salary below the CPP's YMPE, the 2.0 percent benefit is comprised of:

a) a 1.3 percent life-time benefit, and

b) a temporary bridge benefit of 0.7 percent from the date of retirement to age 65.

Early Retirement – Eligible members can opt for an early retirement pension benefit as early as age 55. In these cases, the pension amount is reduced by the lessor of:

a) 3.0 percent for each year prior to age 60, or

b) 3.0 percent for each year prior to attaining 30 years of pensionable service.

Benefits on Termination – A member in the CSSF becomes vested after two years of continuous service in the plan.

a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.

b) Non-vested members are eligible for a refund of employee contributions plus interest.

Inflation Protection – Pensions are increased by the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit, are both indexed annually under the CSSF. Indexation applied at April 1, 2008 was 2.2 percent.

Death Benefits – The CSSF provides for both spousal and dependent benefits to eligible survivors of vested members.

Fund Administration

Administration of the CSSA is assigned to the Pensions and Benefits Section of the Fiscal Management Division, Provincial Treasury. The Fiscal Management Division of the Department of the Provincial Treasury also provides investment management support for the Province of Prince Edward Island Master Trust.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments as at March 31, 2009, were:

1) Beutel, Goodman and Company Limited

2) McLean Budden Limited

3) Northwater Capital Management Incorporated

4) Franklin Templeton Management Limited

5) Capital Guardian Trust Company, and

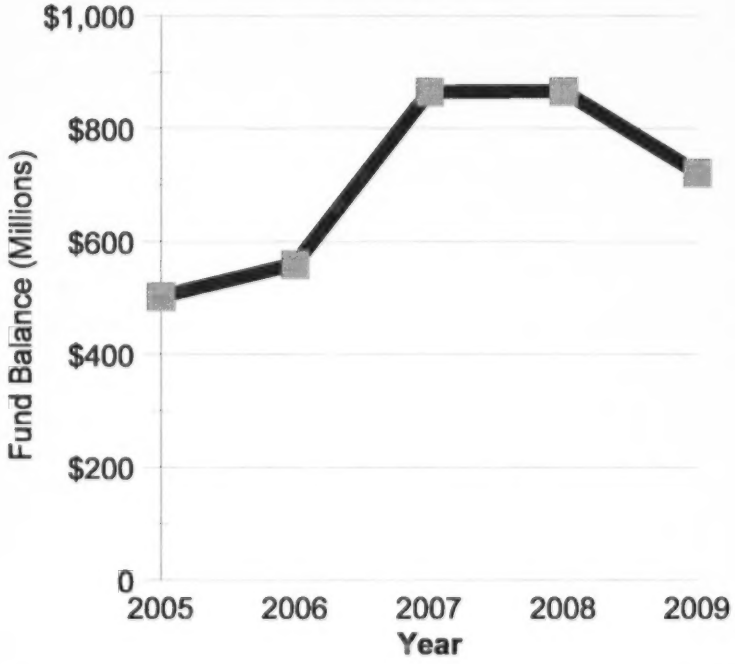
6) Burgundy Asset Management Limited

The total asset balance of the CSSF at March 31, 2009 was approximately $724 million, down from $868 million in 2008.

Diagram 1 shows the CSSF total asset balance from 2005 - 2009.

Diagram 1

CSSF Total Asset Balance



The marked increase in the CSSF total asset balance in 2006-2007 relates to the merger of the Uniform Pension Plan (UPP) assets with the CSSF assets. Also, an additional investment by the Province of Prince Edward Island involved a promissory note in the amount of $52 million.

Employers – There are 15 remitting payrolls in the CSSF with a total of 6,282 full- and part-time employees. The Province of PEI is the largest employer with 5,806 active contributors, three insurance companies contribute for 187 employees on long-term disability claims and 289 contributors are employed with 11 other agencies. Additionally, there are approximately 170 deferred members.

Table 1 lists employers and the corresponding number of members.

Table 1

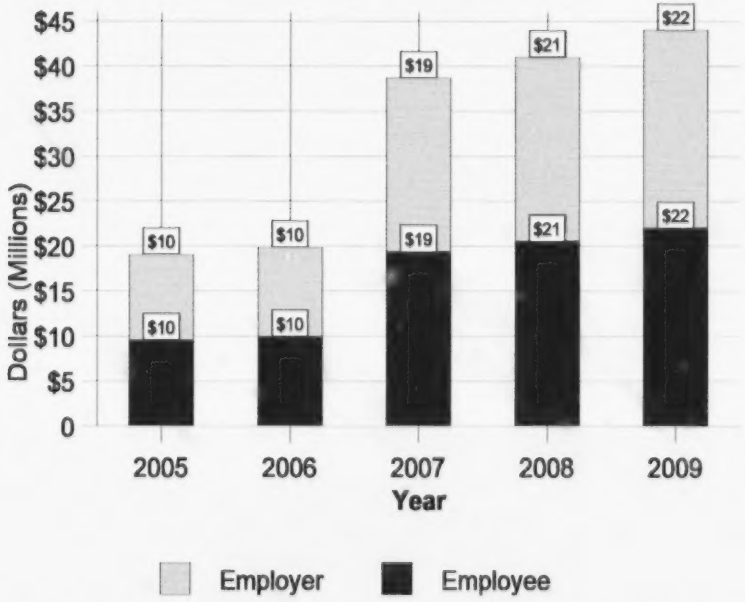
Employers and Total Members

Employer	Total Members
Province of P. E. I. Departments	5,806
Business Development	90
Grain Elevators	10
Health Association	2
IRAC	20
IWMC	48
Lending Agency	9
PEI School Boards	14
Potato Board	10
Status of Women	3
UPSE	9
WCB	74
Great West Life	50
Manulife Ltd	130
Sunlife Ltd	7
Members	**6,282**

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. In 2009, the regular contributions, from both the employer and employees combined, were approximately $44.0 million, up from $41.0 million in 2008. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements. As with the total asset balance, the increase in contributions in 2006-2007 relates to an influx of approximately 3,400 members into the CSSF due to the merger with the UPP.

Diagram 2 depicts, by year, the regular employer and employee contributions made to the CSSF.

Diagram 2
Regular Contributions

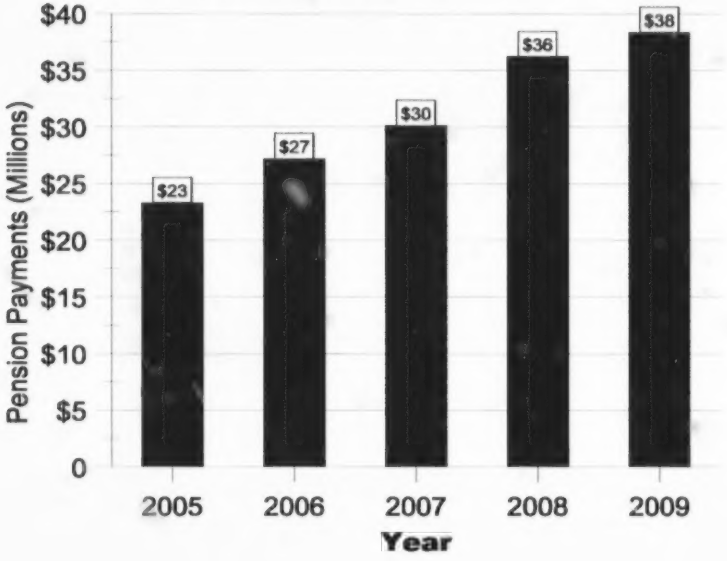


Special Contribution – To reduce the unfunded liability of the CSSF, the Province of Prince Edward Island agreed to invest $52 million in the Fund. The investment was in the form of a $52 million promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of $5.2 million beginning October 15, 2006 plus interest at the rate of 4.41% per annum. Interest is to be paid semi-annually on October 15 and April 15.

Pension Payments – Annual pension payments in 2009 were approximately $38 million, an increase from $23 million in 2005. This is shown in **Diagram 3**. In the fiscal year 2008-2009, approximately 92 percent of the pension payroll was paid to members and the remaining 8 percent was paid out as spousal and dependent benefits.

Diagram 3

Pension Payments



Pensioners – The respective number of persons receiving pension was 2,663 in 2009. **Table 2** outlines the number of new pensioners, and the average age, for the last two fiscal years.

Table 2

Number of New Pensioners with Average Age and Average Annual Pension

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2008-2009	129	59.39	$ 20,168
2007-2008	117	59.16	$ 18,542

Table 3 outlines the categories of pension recipients and the average annual pension for each category.

Table 3

Pension Categories and Average Annual Pension

Category	Number of Persons		Average Annual Pension	
	2009	2008	2009	2008
Members	2,297	2,210	$ 15,536	$ 15,145
Spousal	350	338	$ 9,056	$ 9,023
Dependents	16	15	$ 4,155	$ 3,822
Total Pensions	**2,663**	**2,563**		

Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund, as of the valuation date, are then compared to the liabilities to determine the plan's funding status.

The most recent actuarial valuation was completed as of April 1, 2008. This valuation was based on the following membership data:

1) 6,586 Active Members
   Average Salary of $42,370
   Average Age of 46.5 Years

2) 343 Deferred Members
   Average Annual Pension of $7,530
   Average Age of 48.6 Years

3) 2,573 Retirees
   Average Annual Pension of $14,563
   Average Age of 69.5 Years

The value of the plan assets as at April 1, 2008, was $866,541,000, which represents 87 percent of the actuarial liability of $993,445,000. Table 4 details the statement of financial position as at April 1, 2008.

Table 4

Going-Concern Financial Position

April 1, 2008

Value of Assets		
Market Value	$ 866,541,000	
	Actuarial Liability	**Percentage of Total Liabilities**
Active Members	$ 552,922,000	*56%*
Deferred Members	21,621,000	*2%*
Retired Members and Beneficiaries	418,902,000	*42%*
Total	**$ 993,445,000**	
Actuarial Surplus (Unfunded Liability)	$(126,904,000)	
Funding Ratio	87.2%	

Highlights for 2008-2009

Act/Regulations

During the fiscal year 2008-2009, staff of Pensions and Benefits, in co-ordination with Legal and Judicial Services, Office of the Attorney General, received assent on the following amendments to the Act:

Membership limitations while on Wage Loss Benefits

- the CSSA has been amended to provide for up to 2 years of benefit in the CSSF while in receipt of wage loss benefits under the Worker's Compensation Board Act, or more, to the extent that the member's collective agreement allows.

Move from 3-tier to a 2-tier contribution formula

- the CSSA was amended to change the contribution rate. It was a cost-neutral change that moved from a 3-tier formula to a 2-tier formula as follows:

- 7.09 percent of pensionable earnings up to the YMPE, and
- 8.75 percent of pensionable earnings in excess of the YMPE.

Change in age at which you must begin to draw a benefit from the CSSF

- the CSSA was amended to require members to start drawing their pension by the end of the calendar year in which they turn 71.

Administration Initiatives

Work continues on collecting and verifying historical data for the employees of crown corporations, agencies, boards, and commissions who participate in the CSSF. When this data is complete, it will allow annual pension statements to be produced for these employees.

As a result of the UPP conversion, a project is underway to load all of the data relating to this conversion into the pension administration system.

Investment Management

The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2009, approximately 68 percent of the funds in the Master Trust were assets of the CSSF.

The annual rate of return of the Master Trust as of March 31, 2009 was -17.1 percent. The total return on the Master Trust Fund since March 31,1998 was 3.7 percent.

CSSF Assets

During 2008-2009, there was a net decrease to CSSF assets of approximately $144 million.

Table 5 shows the receipts and income, by source, which totalled approximately $(101) million.

Table 5
Receipts and Income

Type	Amount
Employer Contributions	$ 21,876,205
Employee Contributions	21,876,205
Investment Income	28,753,274
Transfers From Other Plans	240,780
Purchased Service	697,108
Refund Repayments	280,895
Market Value Increase (Decrease)	(175,006,630)
Total	**$ (101,282,163)**

Table 6 shows the expenditures for 2008-2009, which totalled approximately $43 million.

Table 6
CSSF Expenditures

Type	Amount	Percentage of Expenditures
Benefits Paid	$ 38,346,711	
Transfers	637,048	
Refunds	711,692	
Total Benefit Expenditures	**$ 39,695,451**	**91%**
Benefit Administration	$ 438,690	
System Fees	55,558	
Consulting Fees	728,993	
Bank/Miscellaneous Expenses	7,022	
Pension Payroll TPA fees	22,581	
Total Benefit Administration Expenditures	**$ 1,252,844**	**3%**
Investment Manager Fees	$ 2,104,160	
Monitoring Fees	89,761	
Custodial Fees	127,477	
Investment Management Support	92,390	
Total Investment Management Expenditures	**$ 2,413,788**	**6%**
Total	**$ 43,362,083**	**100%**

Administrative Advisory Committee

The Administrative Advisory Committee provides a forum for the purposes of reviewing issues which may arise in the administration of the plan and providing advice to the Provincial Treasurer on such issues. As of March 31, 2009, the committee had eleven members as follows:

No of Members	Member	
1	*Chairperson* - Deputy Provincial Treasurer	Paul Jelley
1	International Union of Operating Engineers	Bill Bylhouwer
1	PEI Nurses' Union	Blair MacDonald
1	Canadian Union of Public Employees	Lane MacLaren
2	Union of Public Sector Employees	Shelley Ward Jim Beaton
2	Provincial Treasury	Scott Stevens Doug Clow
2	Department of Health	Muriel MacLeod Gordon MacFadyen
1	PEI Public Service Commission	Allan O'Keefe

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer on the following items:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

Due to the merger of the CSSF and the former Uniform Pension Plan, the Master Trust Investment Advisory Committee was restructured.

At March 31, 2009, the following were members of the Master Trust Investment Advisory Committee:

Chairperson - Deputy Provincial Treasurer	Paul Jelley
Prince Edward Island Teachers' Federation	Michel Plamondon
Union of Public Sector Employees	Shelley Ward Donalda Docherty
International Union of Operating Engineers	Bill Bylhouwer
Canadian Union of Public Employees	Gordon Muncey
PEI Nurses' Union	Susan Marchbank
Provincial Government	Doug Clow Terry Hogan John Cummings Scott Stevens
Member of the Legislative Assembly	Buck Watts
Ex Officio outside designates	Tim Van Alstyne, *Dominion Securities* Bill Hastie, *Scotia Capital* Paul Malizia and Tony Politano, *Hewitt Associates* *Investment Council*

Audit Requirement

In accordance with Section 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included as an appendix to this annual report.

Contact Information

For further information concerning the administration of the **Civil Service Superannuation Act**, please contact:

Pensions and Benefits
Department of Finance and Municipal Affairs
Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 368-6622

Terry Hogan, Manager
Crystal Burrows, Operations Supervisor
Pamela MacEachern, A/Pension Information Officer

For further information concerning the **Master Trust Fund**, please contact:

Alan Silliker, Manager
Investments and Banking
Department of Finance and Municipal Affairs
Tel: (902) 569-7666

Appendix

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

FINANCIAL STATEMENTS

MARCH 31, 2009

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

Honourable Wesley J. Sheridan
Minister
Department of Finance and Municipal Affairs
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2009 and the statement of changes in net assets available for bensfits for the year then ended. These financial statements are the responsibility of the plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
April 8, 2010

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31, 2009

	2009	2008
ASSETS		
Cash	$ 620,740	$ 2,793,766
Receivables		
Contributions receivable - employees	1,440,178	1,223,687
- employers	1,455,299	1,832,590
Other	345,717	366,324
Accrued interest	736,470	841,680
Current portion of note receivable	5,200,000	5,200,000
	9,798,404	12,258,047
Investments (Notes 2(c) and 3)	682,947,441	819,714,189
Note receivable (Note 5)	31,200,000	36,400,000
Total assets	723,945,845	868,372,236
LIABILITIES		
Accounts payable	2,048,897	1,831,042
NET ASSETS AVAILABLE FOR BENEFITS	$721,896,948	$866,541,194

(The accompanying notes are an integral part of these financial statements.)

Approved:

Minister of Finance and Municipal Affairs

AUDITOR GENERAL - CHARLOTTETOWN, PEI

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2009

	2009	2008
INCREASE IN ASSETS		
Investment income		
Interest	$ 16,578,763	$ 21,737,769
Dividends	12,174,511	12,339,536
	28,753,274	34,077,305
Change in fair value of investments (Note 2(c))	(175,006,630)	(58,596,632)
Contributions		
Employee contributions	21,876,205	20,501,187
Employer contributions	21,876,205	20,501,187
Transfers from other plans	240,780	2,457,934
Refund repayments	280,895	1,016,398
Purchased service	697,108	25,386,753
	44,971,193	69,863,459
Total (decrease) increase in assets	(101,282,163)	45,342,132
DECREASE IN ASSETS		
Operating expenses (Note 6)	3,666,632	3,950,708
Benefits paid	38,346,711	36,220,107
Refunds	711,692	930,090
Transfers to other plans	637,048	1,053,451
Total decrease in assets	43,362,083	42,154,356
(Decrease) increase in net assets	(144,644,246)	3,187,776
Net assets available for benefits, beginning of year	866,541,194	863,353,418
Net assets available for benefits, end of year	$721,896,948	$866,541,194

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

1. Plan Description

The following description of the Civil Service Superannuation Plan (the "Plan") is a summary only. For more complete information, reference should be made to the *Civil Service Superannuation Act* and *Regulations*.

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Civil Service Superannuation Act*.

b) Contributions

Under the Plan, employees and employers make equal contributions amounting to 6.95% on that part of the salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

Effective January 1, 2009, the *Civil Service Superannuation Act* was amended and employees and employers started contributing equally at a rate of 7.09% of that part of the members' salary up to the amount of the year's maximum pensionable earnings (the "YMPE") as defined in the *Canada Pension Plan Act* and 8.75% on the amount that exceeds the YMPE. For those members whose employment is excluded from the *Canada Pension Plan Act* and is not subject to that Act, they continue to contribute 8.75% of their salary as previously arranged.

c) Retirement Benefits

A member who has attained the age of 60 and has completed at least 2 years of service or has attained the age of 55 and has completed 30 years of service is entitled to an unreduced pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2% of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is integrated with the Canada Pension Plan. The pension is reduced by 0.7% of the average salary up to the average YMPE during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966 or July 1, 1972, depending on the election of the member and payment of the required contributions to be eligible for the smaller offset.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

1. Plan Description (continued...)

Reduced benefits are available at age 55 with 2 years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25% for each month by which the early retirement date precedes the member's earliest unreduced retirement age. It is calculated by using the lesser of the number of months between the date of actual retirement and the date the member would attain age 60 or the number of months between the date of actual retirement and the date the member would have at least thirty years of service.

The above formula determines the amount of a member's initial pension at retirement. In subsequent years, the amount of a member's pension is increased in line with increases in the Consumer Price Index. The increase in any one year is limited to no more than 6%.

d) Death Benefits

On the death of a member prior to completing 2 years of pensionable service, or after completing 2 years of service but leaving no surviving spouse or dependant children, the member's contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 2 years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of 4 children, until the child attains age 18, or until 21 if the child is attending school full-time.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest, or
- if the member has completed at least 2 years of service, a deferred pension commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Plan.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

1. Plan Description (continued...)

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax

The Plan is a Registered Pension Plan as defined under the *Income Tax Act* and is not subject to income tax.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These financial statements are prepared on a going concern basis and in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province of Prince Edward Island and the Plan members. They are prepared to assist in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual members. The following accounting policies are considered significant.

b) Consolidation

These financial statements are prepared using the proportionate consolidation method of accounting whereby the Plan's pro-rated share of each of the assets, liabilities, revenues, and expenses of the Province of Prince Edward Island Master Trust (the "Master Trust") are aggregated with those of the Plan in its statement of net assets available for benefits and statement of changes in net assets available for benefits.

c) Investments

Investments are valued at the quoted market value, or estimated market value, as reported by the custodian of the Master Trust.

Changes in the market value of investments, including realized and unrealized gains resulting from changes in foreign exchange, are reflected in the financial statements as a change in the fair value of investments.

Investment revenue includes interest on bank deposits and interest and dividends on long-term investments.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

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2. Significant Accounting Policies (continued...)

d) Investment Transactions

Investment transactions are recognized on the transaction date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Distributions are recognized on the record date.

e) Revenue and Expenses

Revenue and expenses are recorded on an accrual basis in the period in which the transactions or events that gave rise to the revenue or expense occurred.

f) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates. Assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates and the differences may be material.

g) Changes in Accounting Policies

The Fund plans to adopt the recommendations of the Canadian Institute of Chartered Accountants' Section 4600 which will replace Section 4100 for financial statements relating to fiscal years beginning on or after January 1, 2011. Management is reviewing the standard and will assess the impact on the financial statements.

3. Investments

a) Fund investments consist of units held in the Master Trust. There were 746,241.070 (2008 - 719,320.817) units held in the Master Trust as of March 31, 2009, with a fair value of $914.96 (2008 - $1,139.57) per unit.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

3. Investments (continued...)

Investments of the Master Trust consist of the following listed assets:

	2009	2008
Canadian short-term investments	$ 8,095,582	$ 20,265,080
US T-Notes	-	17,466,236
Other liquid assets	1,663,690	1,586,177
Bonds, debentures, and notes	416,946,086	445,233,971
Canadian equity securities (Note 3(c))	337,039,274	423,564,993
Foreign equity securities	238,316,606	305,812,862
Accrued income	5,796,830	6,184,640
Total	$1,007,858,068	$1,220,113,959
Pro-rated share	67.7622%	67.1834%
Civil Service Superannuation Fund investments	$ 682,947,441	$ 819,714,189

Investments include amounts which managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2009	2008
Beutel Goodman & Company Ltd.	$ 12,520,065	$ 20,933,878
Northwater Capital Management Inc.	59,901,201	120,427,884
Capital Guardian	99,154,806	140,110,052
Total	$ 171,576,072	$ 281,471,814
Pro-rated share	67.7622%	67.1834%
Civil Service Superannuation Fund - pooled funds	$ 116,263,721	$ 189,102,335

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

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3. Investments (continued...)

b) Risk Management

Rates of return vary based on the degree of uncertainty. The fundamental sources of uncertainty to which investments are exposed are credit and price risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Price risk is comprised of currency risk, interest rate risk, and market risk. Currency risk is the risk that the value of an investment will fluctuate due to future changes in foreign exchange rates. Interest rate risk is the risk that the value of an investment will fluctuate due to future changes in market interest rates. Market risk is the risk that the value of a financial instrument will fluctuate as a result of future changes in the market prices, whether those changes are caused by factors specific to the individual security, its issuer, and/or factors affecting all securities traded in the market.

The policy of the Master Trust is to invest in a diversified portfolio of investments based on criteria established in the Statement of Investment Policies and Procedures.

c) MAV II Notes/Asset-Backed Commercial Paper

On April 1, 2008, the Master Trust held units in a pooled fund containing non-trading and illiquid third-party issued asset-backed commercial paper. These units were managed by Northwater Capital Management Inc.

On January 21, 2009, the investments were restructured and the original paper was replaced with new longer-term floating-rate notes. These notes were issued via new trusts called Master Asset Vehicles (MAV I and II). The pooled funds managed by Northwater Capital Management Inc. were invested in MAV II notes.

The total value of the MAV II notes held within the pool at March 31, 2009 was $10,741,000 (or $23,363,000 face value less a $12,622,000 discount). Fair value of the MAV II notes are calculated using management's best estimates based on the available information reflecting an illiquid market.

The fair value assigned to the MAV II notes held by the Master Trust may differ from the actual value realized on any sale or other liquidation. As a result of these uncertainties, the fair value reported may change materially in subsequent periods.

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4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected unit credit method pro-rated on service and best estimate assumptions. The most recent actuarial valuation for accounting purposes prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 2008 of $45,800,000.

The estimated present value of accrued benefits as of March 31, 2009, the principal components of changes in actuarial present values during the year, and the estimated unfunded liability were as follows:

	2009	2008
Estimated present value of accrued benefits, beginning of year	$895,007,164	$810,538,950
Interest accrued on benefits	67,017,338	62,675,513
Benefits accrued	32,461,000	31,088,664
Increase due to purchases of service	1,218,783	28,907,685
Benefits paid	(39,695,451)	(38,203,648)
Changes due to actuarial valuation	17,326,836	-
Estimated present value of accrued benefits, end of year	973,335,670	895,007,164
Net assets available for benefits	721,896,948	866,541,194
Unfunded liability	$251,438,722	$ 28,465,970

The economic assumptions used in determining the actuarial value of accrued pension obligation for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

Asset rate of return (upper end of range of assumptions)	7.37%
Basic salary escalation rate (excluding promotional increases)	2.50%
Pension cost of living increases	2.40%

The Consolidated Financial Statements of the Province record the obligation using the method of accounting disclosed above.

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5. Funding Policy

In accordance with the *Civil Service Superannuation Act*, employees are required to contribute to the Fund as described in Note 1(b). Employers match employee contributions to the Fund. Under Section 5 of the *Civil Service Superannuation Act*, payments out of the Fund are guaranteed by the Province of Prince Edward Island.

As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a $52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual installments of $5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41% per annum and is receivable semi-annually on April 15 and October 15. Prior to October 15, 2015, any monies owing may be suspended on six months prior notice if the Minister of Finance and Municipal Affairs deems the funding level of the Fund, excluding any outstanding balances on promissory notes, to be at a level of 90% on a going concern basis as defined in the Province of Prince Edward Island Funding Policy for Government Sponsored Registered Pension Plans. Interest will be accrued to the date of any suspension implemented. Any monies suspended prior to and including October 15, 2015 are no longer due and owing. Provided no further monies are payable, the promissory note shall be deemed paid in full.

The following is a schedule of payments of principal and interest as disclosed in the promissory note:

	Principal Payments	Interest Payable	
Date of Payment	Principal Payment	October 15	April 15
October 15, 2006	$5,200,000	$ -	$1,031,940
October 15, 2007	5,200,000	1,031,940	917,280
October 15, 2008	5,200,000	917,280	802,620
October 15, 2009	5,200,000	802,620	687,960
October 15, 2010	5,200,000	687,960	573,300
October 15, 2011	5,200,000	573,300	458,640
October 15, 2012	5,200,000	458,640	343,980
October 15, 2013	5,200,000	343,980	229,320
October 15, 2014	5,200,000	229,320	114,660
October 15, 2015	5,200,000	114,660	-
	$52,000,000	$5,159,700	$5,159,700

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5. Funding Policy (continued...)

Since the promissory note was not signed until March 30, 2007, but provided for a principal payment as of October 15, 2006, additional interest was paid on the scheduled principal payment of October 15, 2006, as the first payment was not made until April 16, 2007.

The most recent going concern actuarial valuation for funding purposes, dated April 1, 2008, determined an unfunded liability of $126,900,000. At this date, after taking into account the outstanding balance on the promissory note and the present value of excess contributions as stipulated in the Funding Policy, the funding level was above 90%. Therefore, no additional special contributions were required.

6. Operating Expenses

The Fund is charged with administrative and operating expenses. The followinq is a summary of these expenses:

	2009	2008
Administration expenses - pension section	$ 501,270	$ 395,964
- investment section	92,390	77,844
Consulting fees	728,993	921,459
Investment expenses	2,343,979	2,555,441
Total	$3,666,632	$3,950,708

Of the $593,660 in administration expenses incurred in 2009, $419,820 (2008 - $331,720) was incurred directly by the Province and recovered from the Fund.